

Proposed Budget

for the
City of Huntington Beach

**2006/2007
Fiscal Year**

submitted by
Penelope Culbreth-Graft, DPA, City Administrator

City Council – 2006/07

Dave Sullivan, Mayor

Gil Coerper, Mayor Pro Tem

Keith Bohr, Councilmember
Debbie Cook, Councilmember
Cathy Green, Councilmember
Don Hansen, Councilmember
Jill Hardy, Councilmember



CITY OF HUNTINGTON BEACH

THE PEOPLE

CITY CLERK

Administration/
Public Support

Elections

Records
Management

CITY COUNCIL

Mayor

Mayor Pro Tem

City Council Members

CITY TREASURER

Administration/
Investments

Cashiering/
Collections

CITY ATTORNEY

Litigation

Advisory

CITY ADMINISTRATOR

FIRE

Fire
Administration

Fire Prevention

Emergency
Response

POLICE

Uniform Division

Investigations
Division

Administrative
Operations

DEPUTY CITY ADMINISTRATOR

DEPUTY CITY ADMINISTRATOR/ HR DIRECTOR

BUILDING & SAFETY

Permit &
Plan Check
Services

Inspection
Services

ECONOMIC DEVELOPMENT

Redevelopment

Real Estate
Services
& Housing

PLANNING

Planning

Code Enforcement
Neighborhood
Prevention

PUBLIC WORKS

Engineering

Utilities

Maintenance
Operations

Transportation

COMMUNITY SERVICES

Beach Operations

Marine Safety

Recreation,
Human &
Cultural Services

Facilities,
Concessions &
Development

FINANCE

Accounting
Services

Budget &
Research

Central Services

Fiscal Services

INFORMATION SERVICES

Systems

Communications

Operations

LIBRARY SERVICES

Children's/
Branch/
Media

Adult/
Technical
Services



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Huntington Beach
California**

For the Fiscal Year Beginning

October 1, 2005

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Huntington Beach, California for the Annual Budget beginning October 1, 2005. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we will be submitting the adopted budget to GFOA to determine its eligibility for another award.

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City of Huntington Beach

2000 Main Street • Huntington Beach, CA 92648

Penelope Culbreth-Graft, DPA *City Administrator*

August 2006

Honorable Mayor and Members of the City Council:

I am transmitting the preliminary budget for fiscal year 2006/07, which represents the City Administrator's recommendations for the city of Huntington Beach program of service. The proposed budget totals \$318,997,645 of recommended appropriations. This represents a 3.1 percent decrease over the previous year's budget. While the overall proposed budget decreases from last year, the General Fund budget proposes an increase of 4.1 percent, growing from \$171,993,087 last year to \$179,289,154 in fiscal year 2006/07.

During my first two years with the city, the City Council has taken bold steps to address the economic health and long-term financial security of the city. These actions included the following:

- **Developed a Strategic Plan.** The Council conducted public meetings to design a five-year strategic plan, which will be reviewed by the City Council on August 21, 2006, for final adoption. The plan incorporates an aggressive list of projects to improve services, infrastructure, and communication with our citizens.
- **Destination Resort Community.** The City Council made a commitment to continue developing the city as a destination resort with action to dedicate a portion of the Transient Occupancy Tax to the Conference and Visitors Bureau. The efforts of CVB, combined with the future planned development of three hotel sites in downtown, are expected to solidify Huntington Beach as an ultimate coastal destination resort.
- **Corridor Development Study.** Staff was given direction to create a specific plan that addresses the Edinger Corridor and expand development along Beach Boulevard, which included retaining a visionary consultant to explore the possibilities focused on sustainability and quality of life development.
- **Capital Improvement Project Budget with Designated Funds for Infrastructure.** The 2005/06 budget approved a Capital Improvement Program of \$46 million in infrastructure projects, which included the first-time funding of the infrastructure and capital improvement reserve funds in the amount of \$5.5 million.
- **Entitlement Review Process Improvement.** The City Council approved a contract to study and improve the entitlement review process, including reviewing planning-related fees to make Huntington Beach a more competitive place to conduct business. This process is underway and will be completed in the new fiscal year.

The 2006/07 budget was prepared consistent with the bold direction set into motion by the City Council. It includes new positions, additional reserves, significant equipment replacement, and substantial capital projects and infrastructure improvements.

Staffing. A total of 20.25 new positions are added, focusing in the areas of public safety, beach and tourist support areas, and infrastructure maintenance. While this addition does not restore staffing to the 2002 level, it does make substantial progress toward restoring services visible to our residents and visitors.

Reserves. Each year, the city is required by policy to set aside a General Fund reserve of seven percent. For the 2006/07 fiscal year, this required reserve is \$12,002,338. As the city has recovered from its financial slump in early 2000, creating additional reserves to address areas of fiscal volatility is prudent. Last year, the City Council authorized the creation of a second-tier reserve. The preliminary budget proposes the set aside of approximately an additional three percent of the General Fund for the second-tier reserve, bringing the total estimated reserve to ten percent (the actual amount of the second-tier reserve will depend upon the fund balance generated from the 2005/06 fiscal year budget).

For the first time, a reserve is proposed for liability and workers compensation claims and insurance, totaling \$1 million each. In previous years, the amount estimated for these expenses was budgeted as a line item but often left unused. The reserve is established to ensure that funds are available when needed to resolve claims.

Equipment Replacement. An equipment replacement program is created for the 2006/07 fiscal year in the amount of \$4 million to ensure adequate funding is available to replace the sizable list of vehicles and major equipment used by the city. The management team is working on a program to provide for the optimal replacement schedule. While the \$4 million is not adequate to fund all needs, it begins a responsible program to set aside money to ensure minimal purchases can be made in any given year.

Capital Projects and Infrastructure. The proposed budget includes \$36,472,470 in capital projects, which are summarized on page viii of the budget message and detailed in the Capital Improvement Program (CIP) budget document. This is the second year the city has added funding through the infrastructure and capital improvement reserve funds, which come from splitting of the General Fund surplus balance between infrastructure and the second-tier reserve. For 2006/07, this amount contributed \$2,888,360 to capital and infrastructure projects.

As with any municipal budget, the needs always exceed available resources. This year's proposal attempts to address the policy issues expressed by the City Council and meet the overall needs of city departments. Many of those needs remain unfunded, including substantial infrastructure and shortages of staffing desired to keep pace with public demands for service. City staff will continue working with our advisory boards and commissions to explore ways to better serve the public and grow our capacity to provide service with limited resources.

I would like to thank our Executive Management Team for working closely with me to devise a budget plan that addresses the most critical needs. I would also like to thank and acknowledge the work of our newly formed Finance Department, including Dan Villella, Robert Sedlak, John Roulette, Jennifer Lampman, and Michael Solorza. Special thanks to Bob Beardsley, Paul Emery, and Linda Daily for their work on the Capital Improvement Program Budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Penelope Culbreth-Graft".

Penelope Culbreth-Graft, DPA
City Administrator

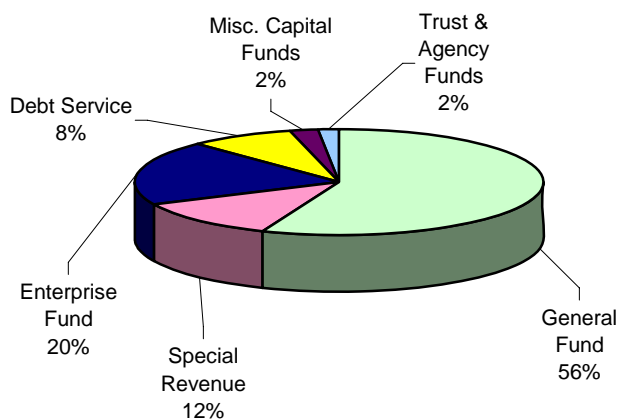
Budget Message

The City of Huntington Beach's annual budget is fundamental to the effective management of the city. It serves as both a spending plan for the year and a communications document, outlining the city's programs and services. The adopted budget contains the tools and resources necessary to enhance vital programs, maintain a high quality of life for our residents, and take advantage of opportunities for growth and development.

The combined annual proposed budget represents a decrease of 3.1 percent, or \$10,125,161, over FY2005/06 for a total of \$318,997,645. An Estimated Fund Balance schedule for all funds has been included in this budget document.

The General Fund, which is responsible for supporting essential city services such as police, fire, marine safety, public works, and city administration, represents 56.2 percent of the total proposed budget. The proposed FY2006/07 budget contains General Fund revenue estimates of \$171,462,000, which is sufficient to fund the proposed \$171,462,000 of ongoing General Fund operations. Incorporated into the General Fund appropriations for the second year, are the Capital Improvement Reserve (CIR), a new insurance reserve, and a designation for equipment replacement. Significant growth in the General Fund balance since 2003 allows this recommendation for an appropriation of \$8,000,000 for capital improvements, liabilities and workers' compensation claims, and equipment replacement in excess of the city's ongoing operations. The total appropriations will then be \$179,289,154, which is an increase of 4.1 percent from the total appropriations from the prior year's budget. The remainder of the budget represents a combination of various funds dedicated to specific purposes, including the Redevelopment Agency, Enterprise Funds, and grants. Figure 1 illustrates the breakdown of expenditures, by type of fund, of the FY2006/07 proposed budget.

Figure 1. Total Budget by Fund Type



Fund Type	Proposed FY06/07
General Fund	\$179,289,154*
Enterprise Funds	62,972,202
Special Revenue Funds	38,008,229
Debt Service	26,576,647
Capital Project Funds	6,570,827
Trust & Agency Funds	5,580,586
Grand Total	\$318,997,645

*Includes designation for capital, insurance and equipment reserves

The City of Huntington Beach's proposed budget is organized into five types of fund categories: the General Fund, Special Revenue Funds, Enterprise Funds, Debt Service Funds, and Trust & Agency Funds. These groups, their major revenue sources, and significant changes affecting revenue and expenditures are described in the following sections.

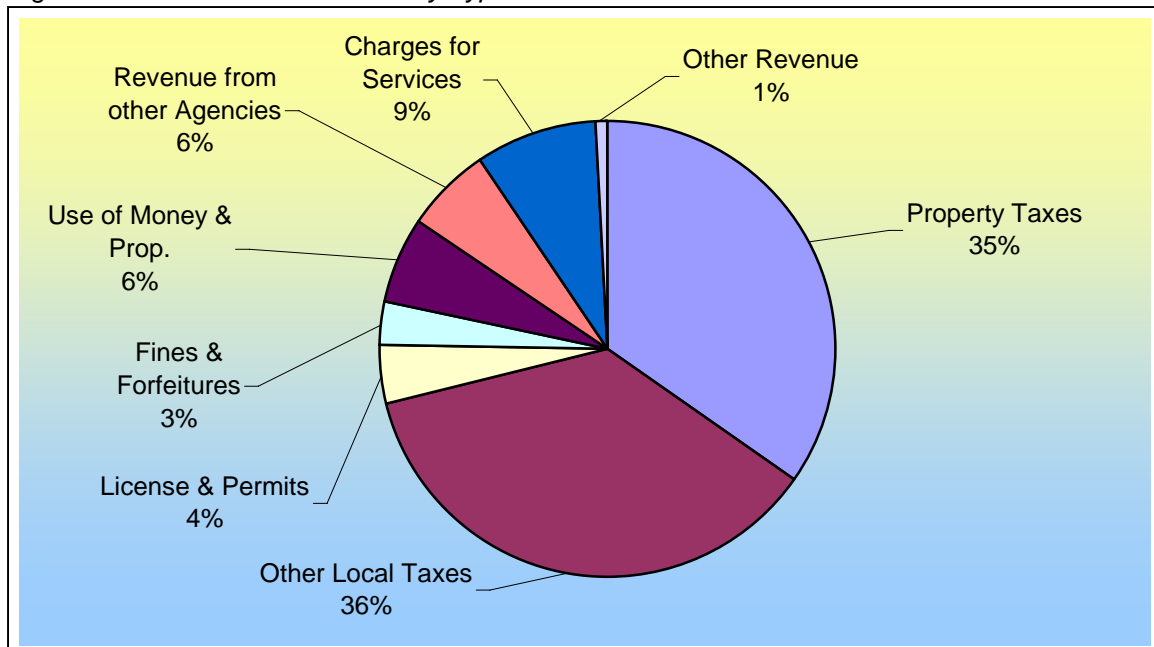
Table 1. All Funds Expenditure Summary

	FY02/03 Actual	FY03/04 Actual	FY04/05 Actual	FY05/06 Adopted	FY06/07 Proposed
General Fund	\$143,940,182	\$156,811,436	\$170,886,354	\$171,993,087	\$179,289,154
Enterprise Funds	43,727,808	51,337,865	51,954,949	78,438,043	62,972,202
Special Revenue Funds	20,691,981	14,554,120	16,270,978	35,290,247	38,008,229
Debt Service	22,300,127	23,105,869	23,190,351	28,087,348	26,576,647
Capital Project Funds	36,381,305	36,898,321	7,727,956	8,620,045	6,570,827
Trust & Agency Funds	25,351,202	14,055,773	5,004,189	6,544,037	5,580,586
Internal Service Fund	14,210,967	18,375	(645)	0	0
Totals	\$306,603,572	\$296,781,759	\$275,034,132	\$329,122,806	\$318,997,645

General Fund

The City of Huntington Beach receives revenue from a variety of sources (see Figure 2). This diversity in revenue sources allows for greater protection from economic downturns in any one area. The principal revenue sources for the General Fund are: property taxes, sales taxes, fees from licenses and permits, utility users taxes, and revenue from intergovernmental agencies. City financial policies require an allocation of seven percent of the proposed General Fund revenue to be held in a reserve account. For the Proposed FY2006/07 budget, this reserve requirement is \$12,002,338.

Figure 2. General Fund Revenue by Type



Consistent with the goals and priorities of the city, the majority of expenditures focus on public safety, community services, and infrastructure needs. Table 2 highlights appropriation requests by department, as well as their respective historical spending totals.

Table 2. Historical General Fund Expenditures by Department

Department	FY03/04 Actual	FY04/05 Actual	FY05/06 Adopted	FY06/07 Proposed
Building & Safety	2,829,817	3,259,375	3,622,238	3,876,751
City Administration	5,142,603	7,313,449	8,779,783	7,526,789
City Attorney	2,771,391	2,325,883	3,071,966	2,628,406
City Clerk	712,342	678,663	877,471	972,851
City Council	280,104	253,934	299,601	288,885
City Treasurer	1,518,680	1,547,002	1,827,071	1,040,403
Community Services	10,350,467	10,727,283	12,187,994	12,859,166
Economic Development	842,304	776,061	1,114,581	1,545,939
Finance	2,317,740	2,500,877	3,092,091	4,402,685
Fire	18,814,052	22,132,932	22,890,385	25,193,094
Library Services	2,958,184	3,124,651	3,581,478	3,831,988
Information Services	5,116,748	5,017,518	6,606,226	6,493,509
Non-Departmental	20,772,269	25,097,930	32,675,036	29,864,300
Planning	2,237,142	2,242,785	2,960,749	3,266,414
Police	39,553,490	45,355,121	49,001,286	55,087,915
Public Works	14,806,035	17,413,089	19,405,131	20,410,011
Totals	\$131,023,369	\$149,766,552	\$171,993,087	\$179,289,154

Significant Changes

In March 2006, the City Council approved the reorganization of the Finance Office into the Finance Department. Included in this reorganization was the creation of the fiscal services division. This division is comprised of the business license and water billing operations, which were formerly managed by the City Treasurer. This transition streamlines fiscal functions, improves internal controls, and allows the City Treasurer to focus on City Charter responsibilities.

Another significant change is the development of an equipment replacement policy. Prior to FY2005/06, departments were discouraged from purchasing new or replacement equipment due to budget restraints. This led to an overwhelming need for large equipment purchases in FY2005/06 to address efficiency, liability, and safety concerns. FY2006/07 is the second year of a multi-year effort to recover from funding deficiencies and replace dated equipment. The goal of the new equipment policy is to create a funding mechanism, through a reserve in the General Fund, to support and prepare for future equipment needs. This will decrease the potential for future budget cuts that negatively impact the city's equipment assets. For the proposed 2006/07 fiscal year, the amount set aside in the reserve is \$4,000,000, which will be used to replace items that may require replacement prior to FY2007/08, and also serves as the initial contribution towards funding future equipment needs, as determined by the equipment replacement policy.

In addition, the proposed budget creates an insurance reserve of \$2,000,000 for general liability and workers' compensation expenses. The insurance claims operating appropriations have been significantly reduced to reflect recent years spending patterns. Because this is an area that can be volatile, this reserve will be available to meet potential fluctuations.

All other significant changes are addressed in the department summaries.

One Time Actions

The General Fund has accumulated a second tier reserve of approximately three percent. The second tier was established last year to augment the seven percent required reserve. Administration believes it is prudent to strive to maintain a total of ten percent within these reserves. This reserve is available when other funding options are not sufficient. In FY2006/07 the Capital Improvement Program (CIP) includes Phase I of the Heil Pump Station project, which totals \$1,950,000. The Infrastructure Fund is the primary source of funding for this project and is contributing \$1,056,000 towards the project. The remaining \$894,000 is proposed to be transferred from the second tier reserve to the Capital Improvement Reserve (CIR) to fund the difference. This is considered a priority expenditure due to the deteriorated condition of the existing station and the time required for project design and right of way acquisition.

Challenges

Each year, the city faces an increasing demand for services, which exceed available resources. While we are experiencing a positive growth in revenues, the growth does not allow us to resolve infrastructure deficiencies and department requests for new programs. As well, the city experienced serious blows to its General Fund within the past five years due to state takeaways, impact from 9-11, loss of water in-lieu fees, and unfunded mandates imposed on water quality.

The FY2006/07 budget represents a budget in recovery but one that still grapples with the deficiencies wrought in prior years. In addition to this being our second year loss of water in-lieu fees, we are struggling to address a backlog of equipment replacement needs, failing infrastructure and challenges attracting and retaining qualified employees.

During the past two years, the city has needed to increase investment in personnel through salary and benefit adjustments to address excessive vacancies and retention problems. While some adjustments were made in the budget to address deficiencies in public safety areas, other personnel classifications will need to be addressed during the year and in future years. Retirement of the baby boomers creates stiff competition for qualified employees, creating challenges for all public agencies.

General Fund Revenue

As previously mentioned, the city receives revenue from a variety of sources. Table 3 presents major revenue categories along with amounts received, budgeted and proposed.

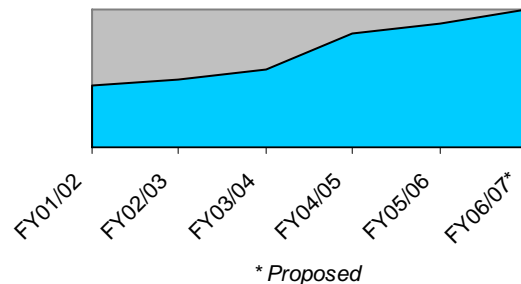
Table 3. Historical General Fund Revenue by Type

Revenue Source	FY03/04 Actual	FY04/05 Actual	FY05/06 Adopted	FY06/07 Proposed
Property Tax	\$33,798,795	\$48,118,935	\$53,700,000	\$59,587,000
Other Local Taxes	60,991,423	60,233,606	56,046,000	61,468,000
Licenses & Permits	7,732,499	7,432,476	6,613,614	8,240,700
Fines & Forfeitures	4,341,584	4,364,523	4,829,150	4,468,200
Use of Money & Property	8,923,749	9,891,264	9,413,600	11,882,000
From Other Agencies	10,146,274	6,807,830	9,534,279	5,963,500
Charges for Services	11,164,650	10,755,829	13,320,066	14,476,073
Other Revenue	(362,438)	3,100,714	1,171,000	722,500
Non-Operating	4,870,404	7,090,170	6,953,921	4,654,000
Totals	\$141,606,938	\$157,795,347	\$161,581,630	\$171,461,973

Property Tax

Property taxes are levied at the statewide general property tax rate of one percent of assessed value, with a maximum adjustment of two percent per year. Property tax revenues have steadily increased in recent years due to increases in housing prices countywide. In FY2006/07, property tax revenue is expected to increase over the FY2005/06 budget by \$5,887,000 or 11 percent, for a total of \$59,587,000.

Figure 3. Property Tax Growth Over a Five-Year Period



Utility Users Tax

A Utility Users Tax of five percent is imposed on consumers of telephone, electricity, gas, water, and cable television services within the city limits. The Utility Users Tax (UUT) is the city's third largest revenue generator for the General Fund and is projected to increase by nine percent in FY2006/07 over the adopted FY2005/06 budget, bringing in an estimated \$22.75 million to the General Fund.

The U.S. Treasury Department recently released a new ruling regarding the taxation of local telephone services. It is unclear what impact, if any; the ruling will have on the city's ability to collect utility user tax. The City Attorney and Finance Department are carefully monitoring the situation.

Sales Tax

Sales and Use Taxes are imposed on retail transactions and are collected and administered by the California State Board of Equalization. The City of Huntington Beach receives revenue from two major sources of Sales and Use Taxes. The first is the Bradley-Burns Sales and Use Tax, of which the city realizes 0.75 percent of total taxable sales generated within the city. The city also receives a portion of the 0.5 percent "Public Safety Sales Tax" approved state-wide by voters as Proposition 172 which became effective January 1994. For FY2006/07, sales tax revenue from these two sources is projected to increase by ten percent over the current fiscal year, for a total projection of \$24,833,000.

Transient Occupancy Tax

The Transient Occupancy Tax (TOT) is imposed on lodging facilities such as hotels and motels. The city's current tax rate is ten percent for the use of a room in a hotel or other lodging facility. The TOT is projected to increase by nine percent to \$6,095,000 in FY2006/07.

Vehicle License Fee

The Vehicle License Fee (VLF) revenue has undergone major changes by the State of California in recent years. The VLF is collected by the state in-lieu of personal property taxes on vehicles. In recent years, the state permanently reduced the VLF tax rate from 2.0 percent to 0.65 percent. Through various legislative actions, the state replaced the revenue with property tax. Referred to as the "Triple Flip," the state devised a complex plan whereby municipalities would be compensated for lost VLF and sales tax revenue through a series of revenue "swaps."

Specifically, the City of Huntington Beach now receives "In-Lieu of VLF" revenue. This revenue is tied to assessed property values. The benefit of the "Triple Flip" is that VLF revenue is predicted to be more stable and realize moderate growth since it is based on property values.

Basic VLF revenue on the 0.65 percent tax on vehicles is expected to be approximately \$1.4 million in FY2006/07. Combined with "In-Lieu of VLF," the city projects over \$13.2 million in revenue for FY2006/07.

Licenses and Permits

Licenses and permits generate revenues from activities such as business licenses, parking permits, and building-related permits. The most significant revenue sources from the licenses and permits category are the Business License and the Building Permit Fee. Licenses and permits comprise approximately five percent of the General Fund revenue and total \$8,240,700 for FY2006/07.

Enterprise Funds

Enterprise funds are proprietary funds supported by user fees. The rates charged to consumers for these services cover the current cost of operations, and the maintenance and financing of related capital assets. The City of Huntington Beach maintains five main enterprise funds: Water, Water Master Plan, Sewer Service, Refuse, and Emergency Fire Medical. The expenditures in these funds allow for the operation of essential services and address the city's commitment to protecting public health and safety. Proposed enterprise fund expenditures for FY2006/07 total \$62,972,202, representing a 19.7 percent decrease from FY2005/06.

This decrease is not surprising as these funds provide funding for extremely large projects. Due to the complexity of the work involved and engineering schedules, the annual budget for these funds will often rise and fall according to the number of projects planned for a given year. As an example, for the Sewer Service Fund, several large sewer projects were awarded in FY2005/06. Therefore, the current focus is on the management and engineering of those projects, resulting in a small number of new projects proposed for FY2006/07.

The city's Water Master Plan outlines a specific schedule, spanning several fiscal years, for the various projects funded through the Water Master Plan fund. The proposed FY2006/07 budget is substantially lower than the adopted FY2005/06 as fewer projects are scheduled to be completed this year.

Table 4. Historical Expenditures for Main Enterprise Funds

	FY03/04 Actual	FY04/05 Actual	FY05/06 Adopted	FY05/06 Revised	FY06/07 Proposed
Water	25,952,552	22,933,771	35,634,033	37,127,197	33,771,990
Water Master Plan	4,162,868	5,805,642	8,121,809	17,659,240	1,507,776
Sewer Service	4,017,939	5,923,909	14,582,494	21,724,199	7,188,585
Refuse Collection Service	9,653,493	9,755,229	10,452,600	10,458,281	10,479,844
Emergency Fire Medical	5,788,497	5,675,896	7,610,478	7,648,971	7,908,224
Totals	49,575,349	50,094,447	76,401,414	94,617,888	60,856,419

Special Revenue Funds

Special revenue funds are funding sources legally restricted to a specific purpose, most often related to infrastructure. For example, the Gas Tax and Transportation Funds (i.e., Measure M), limit expenditures to street and transportation improvements within the public right-of-way. For FY2006/07 Huntington Beach is projected to receive \$4.9 million for the Gas Tax Fund and \$2.3 million in Measure M monies.

Additional special revenue funds include the Drainage, Traffic Impact, Park Acquisition and Development, Air Quality, and Library Services Funds. The first four receive revenue directly from development fees. The latter two funds are

restricted to projects aimed at reducing air emissions and renovation of the Central Library, respectively.

All Special Revenue Funds (including those not mentioned above) have estimated revenue for FY2006/07 of \$12,867,500. This represents a seven percent decrease from FY2005/06. The primary reason for this decrease is reduced revenue from the State of California to the Gas Tax Fund. While the state is making strides in FY2005/06 to pay back revenue owed from FY2003/04 and FY2004/05, the future outlook shows diminished revenue transferred to municipalities to the Gas Tax Fund.

Capital Improvement

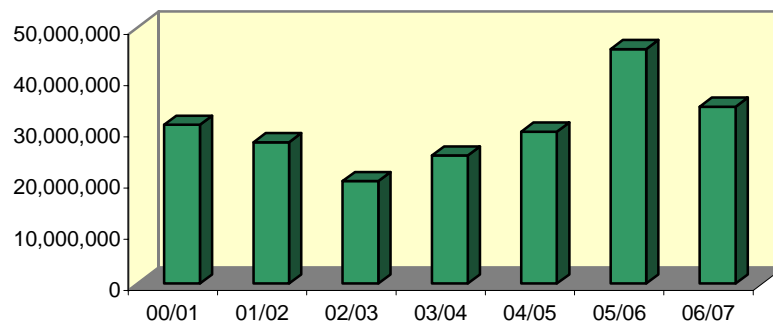
The goal of the five-year Capital Improvement Program (CIP) is to identify the major public improvement projects in progress or proposed for FY2006/07. Figure 4 provides the history of CIP budgets from FY2000/01 to the current proposed budget year.

Capital projects often span several fiscal years and are prioritized to address the goals outlined in the Strategic Plan and the city's General Plan. The portion of the CIP scheduled for FY2006/07 totals

\$36,472,470, which is funded through grants, Enterprise Funds, Special Revenue Funds, Infrastructure Fund, and the General Fund. The Proposed CIP represents a decrease of 21 percent over the current fiscal year due to a large number of successful grant applications awarded in FY2005/06 and the focus of management on completion of those projects already in progress.

Major projects for the upcoming fiscal year include widening of Heil Avenue, citywide water main replacement, the Edison Youth Sports Complex reconfiguration, expansion of the Heil Pump Station, and various arterial highway rehabilitation projects. Specific details including project descriptions, timelines, and funding sources for all proposed capital improvement projects are included in the CIP section of this document, as well as the proposed CIP document, which is published separately.

Figure 4. Total Budget of Capital Improvement Projects



Personnel Resources

The proposed budget includes a total of 1,103.8 full-time equivalent (FTE) positions, with 944.43 FTE positions funded within the General Fund. This figure represents an increase of 11 positions over FY2005/06 and includes the addition of 5.5 FTE positions at the FY2005/06 mid-year budget review.

While departments requested forty new positions initially, only a limited number are proposed due to the limited funding available. The balanced budget proposal for the General Fund includes the following positions:

Position	Department	FTE
Office Specialist	City Attorney	1.0
Office Assistant I	City Clerk	0.5
Beach Operations Manager	Community Services	1.0
Equipment Operator	Community Services	1.0
Parking Assistant	Community Services	1.0
Information Services Analyst IV	Information Services	1.0
Communications Operator	Police	2.0
Criminalist	Police	0.5
Pest Control Specialist	Public Works	1.0
Electrician	Public Works	1.0
Plumber *	Public Works	1.0
Total		11.0

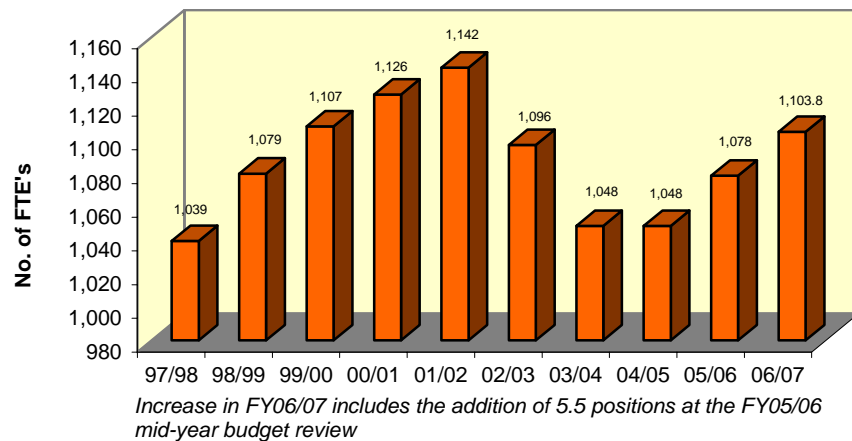
**This position replaces a Mechanic II position*

The balanced budget proposal for all other funds includes the following positions:

Position	Department	Fund	FTE
Office Assistant II	Community Services	Art Center	0.25
Mechanic III	Fire	WMD Grant	1.0
Administrative Aide	Fire	FireMed	1.0
Office Assistant II	Fire	FireMed	1.0
Maintenance Service Worker	Public Works	Sewer Service	1.0
Equipment Operator	Public Works	Sewer Service	1.0
Water Service Worker	Public Works	Water	3.0
Water Distribution Leadworker	Public Works	Water	1.0
Total			9.25

Detailed information regarding personnel changes is included in each department's summary.

Figure 5. Historical Budgeted Full-Time Positions (FTE)



Unfunded Liabilities

The City of Huntington Beach has three post-retirement benefit unfunded liabilities, outlined in detail in the Comprehensive Annual Financial Report (CAFR). The Public Employee Retirement System (PERS) contract for safety employees (\$58,556,000), the Retirement Supplement Plan (\$28,796,000), and the Retirement Medical Subsidy (\$6,518,000). These amounts come from the most recent actuarial studies, with results of new studies to be received in late 2006.

The PERS contract requires payment of this liability to occur through the payroll process. Approximately 43 percent of our employer payment for safety employees will go toward reducing the unfunded liability with safety employees, paying approximately 19 percent of this commitment through deductions from their paycheck.

The amount the city should set aside each year for the Retirement Supplement Plan is determined actuarially and is included in the proposed budget. Approximately 74 percent of this payment goes towards reducing the unfunded liability. Because this plan is not provided to employees hired after 1997, liability is reduced through the budgeted payments and the mortality of the participants. The actuarial required Medical Subsidy Plan payment is also included in the proposed FY2006/07 budget. Approximately 49 percent of the payment will go toward reducing the unfunded liability.

Economic Outlook

Overall economic growth is expected to continue. While the housing construction industry has slowed, growth rates for this economic sector are still healthy from a historical perspective. Commercial construction also shows gains. Housing prices are still appreciating, however, at a slower rate of approximately nine percent with a six percent expected rate in 2007. Personal income, another strong economic indicator, is growing at a rate of 5.8 percent rate in 2006, and is projected to increase by an additional 5.5 percent in 2007. There are however, concerns for the long-term economic growth. The nation's Gross Domestic Product (GDP) grew 2.5% for the second quarter of calendar year 2006, down from a growth rate of 5.6% for the first quarter. Rising energy costs and events overseas may continue to slow the overall economy.

However, even stagnant or declining housing prices will not affect property tax revenue in FY2006/07 due to the rules and mechanisms of Proposition 13. Assessed valuations for the City (excluding Redevelopment Agency incremental valuations) increased a healthy 9.4% from FY2005/06 to FY2006/07.

In Huntington Beach, completion of large projects such as Bella Terra should offer increased sales tax revenues. Other major development projects such as the Strand and Pacific City combined with increased efforts by the Convention

and Visitors Bureau (CVB) to make Huntington Beach a “destination city” should also increase revenue realized from increased assessed property values, sales and transient occupancy taxes.

There is a potential challenge from telecommunications companies relating to court and federal government decisions may affect a significant portion of the City’s utility tax revenue relating to long-distance service. Staff will keep the City Council advised of any further developments relating to this.

Future Considerations

Mid-Year Budget Review

The City of Huntington Beach strives to prepare a balanced budget representative of the goals and objectives of the City Council. In doing so, administration has worked with departments to match available revenue with operational needs. In this balancing effort, often department needs are not fully addressed to desired levels. In the past two years, rightsizing of budgets has taken place to reassign unneeded appropriations to areas of greatest need. While it is expected that this rightsizing effort will not result in any service reduction, should that occur, the mid-year budget process may be used to make adjustments.

Setting of Pension Tax Rate

Each year the city must set its tax rate and inform the County by September 1, which is prior to the city’s annual budget review. Due to the timing, the resolution is done separately from the budget. The City of Huntington Beach levied a tax, at the rate of .00696 per \$100 of assessed value for FY2005/06, on all assessed property in the city to partially fund the PERS safety retirement program. The City Council may set this rate to approximately .0300 per \$100 of assessed value. In addition, there is a potential to also fund a portion of the miscellaneous retirement plan. While an increased rate is not needed to balance the proposed budget, revenue generated by a rate increase would pay a greater portion of pension costs. This would free other revenues, which could be used towards infrastructure improvements, reduction of unfunded liabilities, or to enhance existing services.

Budget Time Line

A public hearing on the proposed budget is scheduled for September 5, 2006. Workshops or additional public hearings may be scheduled at the discretion of the City Council. The City Charter requires that the budget be adopted by September 30, 2006.